

MEMORANDUM FOR: Chief, Audit Staff

FROM : F. W. M. Janney
Director of Personnel

VIA : Deputy Director for Administration

SUBJECT : Report of Audit of Employee Activity
Association through 31 December 1975

REFERENCE : Memo to D/Pers from C/Audit Staff dtd
5 May 76, subj: Reports of Audit

1. While the referent Report of Audit contained no recommendations, certain observations were made, on which we comment below.

2. The Report of Audit noted that the EAA Bylaws are not clear as to the extent to which the President may act unilaterally in certain areas of EAA management. The EAA Bylaws provide that the President "shall have and exercise general charge and supervision of the affairs of the corporation." We believe this authority empowers the President to take a variety of actions related to EAA management. Nonetheless, we have confirmed by Board approval certain of the matters noted in the Report of Audit. As indicated in the audit observations, the President has used his authority in the past to:

a. Invest EAA funds - This involves the deposit of EAA funds in the Credit Union and the purchase of certificates of deposit in local savings and loan institutions. This action was brought to the attention of the EAA Board on 20 April 1976.

b. Borrow monies from the Credit Union - The President approved the use of a short-term loan from the Credit Union in order to pay for the block of Redskin tickets that are sold annually. In the past, money had been withdrawn from the EAA account for this expenditure. It was determined in discussions with

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the Credit Union that it would save EAA money to handle the transaction with a short-term loan. This procedure was approved at a meeting of the EAA Board on 20 April 1976.

c. Appoint a store manager - It is believed that the President has sufficient authority within the Bylaws to select EAA employees. In the future, however, such appointments will be entered in the minutes of Board meetings.

4. The final EAA audit observation involves the use of appropriated fund employees by EAA. While the report speaks of five employees, there are actually only four EAA contract employees. The fifth individual, [REDACTED] operates the physical fitness room which is an Agency activity separate and apart from EAA. We agree that our authority to continue this practice should be reconfirmed and will request an OGC opinion.

STATINT

(S)
F. W. M. Janney

Attachment:
Reference

Distribution:

Orig - Addressee

1 - DDA

1 - D/Pers ✓

2 - C/BSD (1 w/held)

OP/BSI [REDACTED] gec (4 Jun 76)

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REPORT OF AUDIT
Employee Activity Association

For the Period
1 January 1974 - 31 December 1975

SCOPE OF AUDIT

We examined the balance sheet of the Employees Activity Association (EAA) and related statements of income and expense for the fiscal years ended 31 December 1975 and 1974. We also reviewed EAA operations for compliance with applicable Agency and Federal regulations.

BACKGROUND INFORMATION

The Employee Activity Association, Inc. (EAA) administers a variety of activities for the general benefit and welfare of members. They sponsor social, educational, and athletic clubs; operate a retail store and ticket service; and administer the Agency exercise room and the Central Employees Activity Fund (CEAF). The Agency provides two staff employees, on a reimbursable basis, to the store; four contract employees are assigned to other activities of EAA at no cost.

The EAA Board of Directors has five members. Four are elected representatives of sponsored clubs; the fifth, a member-at-large, is appointed by the Director of Personnel. The Chief, Benefits and Services Division, Office of Personnel, directs the operation of the store with the guidance of his supervisor and the President of the Board. Board actions generally are limited to approval of the annual budget and the store's inventory levels.

SUMMARY OF FINANCIAL OPERATIONS

The net worth of EAA at 31 December 1975 was \$147,020. Net income of \$17,262 in 1975 and \$16,678 in 1974 was derived principally from store operations. Financial statements for Fiscal Years 1975 and 1974 are attached as Exhibits A and B.

AUDIT OBSERVATIONS

The store is managed efficiently and EAA financial controls, procedures and records are effective. Minor matters requiring correct action were resolved during the audit.

During the audit period the President of the Board of Directors invested EAA funds, borrowed monies from the Credit Union for EAA, and appointed a store manager. The by-laws are not clear as to the President's authority to act unilaterally in these matters. We suggest the President obtain clarification of the by-laws from the Office of General Counsel (OGC) or ask the Board of Directors to delegate the necessary authorities.

The Board of Directors is considering the accumulation of cash and investments which now exceed \$150,000 and plans to formalize its position on the disposition of these funds.

The Office of Personnel (OP) details (five) employees to EAA. The authority for this policy is discussed in a memorandum dated 17 February 1967 from the then Director of Personnel to the then Deputy Director for Support. The memorandum cited three reasons in support of OP's present policy as follows:

- a. The Agency, as well as other Government agencies, historically has offered employees certain recreational opportunities of a club, athletic, and cultural nature.
- b. Close Agency review and support of such a program stems from the security implications of participation by Agency personnel in these activities in non-Agency groups.
- c. An EAA program of this scope and nature has long been considered to be an Agency activity comparable to that afforded by other Federal agencies, and, to this extent, appears appropriate that the Agency support these activities from appropriated funds.

We are concerned whether either (a) or (c) constitutes appropriate legal authority. Each federal agency stands alone in obtaining appropriated funds for authorized purposes.

To our knowledge there is no general authority for any Agency to support a recreational program in the absence of specific appropriation authority. We suggest OP request Office of General Counsel guidance on this point. One possibility would be to obtain this authority by having the Office of Comptroller specifically request the necessary funds from Congress.

Reason (b) cites, in effect, the Director's special authority to expend funds for confidential purposes. If it is decided to rely on this authority alone, it may be appropriate to present the matter to the DCI for his approval. The memorandum of 17 February 1967 did not request approval of the DCI or the Executive Director/Comptroller for the continuance of assigning staff employees to EAA.

Employees Activities Association
Balance Sheet

31 December 1975

ASSETS

Cash on Hand and in Bank		\$ 65,713
Savings and Investments		84,782
Inventory, at cost		26,235
Prepaid Expenses		627
Equipment, net of Accumulated Depreciation		4,227
Central Employee Activity Fund		
Funds Held in Trust	\$82,742	
Less: Due Fund	<u>82,742</u>	<u>-0-</u>
Total Assets		<u>\$181,584</u>

LIABILITIES AND NET WORTH

Accounts Payable		\$ 25,360
Taxes Payable		2,993
Deposits on Special Orders		133
Accrued Expenses		6,078
Net Worth:		
Balance, 1 January 1974	\$112,704	
Net Income 1974	16,678	
Net Income 1975	17,262	
ADD: Adjustments against prior years earnings	<u>376</u>	
Balance, 31 December 1975		<u>147,020</u>
Total Liabilities and Net Worth		<u>\$181,584</u>

Employee Activity Association
Comparative Statement of Income & Expense
For the Years Ended 31 December 1975 and 1974

	<u>1975</u>	<u>1974</u>
Merchandise Sales	\$347,702	\$307,891
Cost of Goods Sold	298,738	256,973
Gross Profit on Sales	<u>48,964</u>	<u>50,918</u>
Other Income		
Membership Dues	14,083	13,548
Interest Income	4,629	3,342
GSI Barbershop	2,832	2,048
Ticket Sales and Club Activities Net	<u>3,917</u>	<u>3,590</u>
Total Other Income	<u>25,461</u>	<u>22,528</u>
Total Income	74,425	73,446
Other Expenses		
General and Administrative	43,519	45,461
Employee Programs	<u>13,644</u>	<u>11,307</u>
Total Other Expenses	<u>57,163</u>	<u>56,768</u>
Net Income	<u>\$ 17,262</u>	<u>\$ 16,678</u>